

validity or enforceability or the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

9.11. Interpretation. The table of contents and headings herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof. Where a reference in this Agreement is made to a Section or Exhibit, such reference shall be to a Section or Exhibit to this Agreement unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

9.12. Captions. The Article, Section and paragraph captions herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof.

9.13. Assignment. This Agreement shall not be assignable by operation of law or otherwise; provided, however, that SBC may designate prior to the Effective Time, by written notice to the Company, another wholly-owned direct or indirect Subsidiary to be a party to the Merger in lieu of Merger Sub, in which event all references herein to Merger Sub shall be deemed references to such other Subsidiary (except with respect to representations and warranties made herein with respect to Merger Sub as of the date hereof) and all representations and warranties made herein with respect to Merger Sub as of the date hereof shall also be made with respect to such other subsidiary as of the date of such designation. Any assignment in contravention of the preceding sentence shall be null and void.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first written above.

AMERITECH CORPORATION

By: /s/ Richard C. Notebaert
Name: Richard C. Notebaert
Title: Chairman and Chief
Executive Officer

SBC COMMUNICATIONS INC.

By: /s/ Edward E. Whitacre, Sr.
Name: Edward E. Whitacre, Sr.
Title: Chairman and Chief
Executive Officer

SBC DELAWARE, INC.

By: /s/ Edward E. Whitacre, Sr.
Name: Edward E. Whitacre, Jr.
Title: President

Form of Company Affiliate's Letter

_____, 1998

SBC Communications Inc.
175 E. Houston
San Antonio, TX 78205

Ladies and Gentlemen:

The undersigned is a holder of shares of Common Stock, \$1.00 par value per share ("Company Common Stock"), of Ameritech Corporation, a Delaware corporation (the "Company"). Pursuant to the terms of that certain Agreement and Plan of Merger, dated as of May 10, 1998, among the Company, SBC Communications Inc., a Delaware corporation ("SBC"), and SBC (Delaware), Inc., a Delaware corporation and a wholly-owned subsidiary of SBC ("Merger Sub"), Merger Sub will be merged with and into the Company and the Company will become a wholly owned subsidiary of SBC (the "Merger"). In connection with the Merger, the undersigned, as a holder of Company Common Stock, will be entitled to receive Common Stock, par value \$1.00 per share, of SBC (the "Securities") in exchange for the shares of Company Common Stock held by the undersigned at the effective time of the Merger.

The undersigned acknowledges that the undersigned may be deemed an "affiliate" of the Company within the meaning of Rule 145 ("Rule 145") promulgated under the Securities Act of 1933, as amended (the "Act"), and/or as such term is used in and for purposes of Accounting Series Release Nos. 130 and 135, as amended, of the Securities and Exchange Commission (the "Commission"), although nothing contained herein shall be construed as an admission of such status.

If in fact the undersigned were an affiliate of the Company under the Act, the undersigned's ability to sell, assign or transfer any Securities received by the undersigned in exchange for any shares of Company Common Stock pursuant to the Merger may be restricted unless such sale, assignment or transfer is registered under the Act or an exemption from such registration is available. The undersigned understands that such exemptions are limited and the undersigned has obtained advice of counsel as to the nature and conditions of such exemptions, including information with respect to the

SBC Communications Inc.

_____, 1998

Page 2

applicability to the sale of such Securities of Rules 144 and 145(d) promulgated under the Act.

The undersigned hereby represents to and covenants with SBC that it will not sell, assign or transfer any Securities received by the undersigned in exchange for shares of Company Common Stock pursuant to the Merger except (i) pursuant to an effective registration statement under the Act, (ii) by a sale made in conformity with the volume and other limitations of Rule 145 (and otherwise in accordance with Rule 144 under the Act, if the undersigned is an affiliate of SBC and if so required at the time) or (iii) in a transaction which, in the opinion of independent counsel reasonably satisfactory to the Company or as described in a "no-action" or interpretive letter from the Staff of the Commission reasonably satisfactory to SBC, is not required to be registered under the Act.

The undersigned understands that SBC is under no obligation to register the sale, assignment, transfer or other disposition of the Securities by the undersigned or on behalf of the undersigned under the Act or to take any other action necessary in order to make compliance with an exemption from such registration available solely as a result of the Merger.

In the event of a sale of Securities pursuant to Rule 145, the undersigned will supply SBC with evidence of compliance with such Rule, in the form of customary seller's and broker's Rule 145 representation letters or as SBC may otherwise reasonably request. The undersigned understands that SBC may instruct its transfer agent to withhold the transfer of any Securities disposed of by the undersigned in a manner inconsistent with this letter.

The undersigned acknowledges and agrees that appropriate legends will be placed on certificates representing Securities received by the undersigned in the Merger or held by a transferee thereof, which legends will be removed (i) by delivery of substitute certificates upon receipt of a letter from the staff of the Commission, or an opinion of counsel in form and substance reasonably satisfactory to SBC, to the effect that such legends are no longer required for the purposes of the Act and the rules and regulations of the Commission promulgated thereunder, (ii) in the event of a sale of the Securities which has been registered under the Act or made in conformity with the provisions of Rule 145.

The undersigned further represents to and covenants with SBC that (i) the undersigned will not, during the 30 days prior to the effective time of the Merger sell, transfer or otherwise dispose of, or reduce any risk relative to, any securities of the Company or

SBC Communications Inc.

_____, 1998

Page 3

SBC, and (ii) the undersigned will not, after the effective time of the Merger, sell, transfer or otherwise dispose of, or reduce any risk relative to, the Securities, whether received by the undersigned in the Merger or otherwise, until after such time as financial results covering at least 30 days of post-Merger operations of SBC (including the combined operations of the Company and SBC) have been published by SBC in the form of a quarterly earnings report, an effective registration statement filed with the Commission, a report to the Commission on Form 10-K, 10-Q or 8-K, or any other public filing or announcement which includes such results of operations, except in the cases of clauses (i) and (ii) of this paragraph to the extent permitted by, and in accordance with, SEC Accounting Series Release 135 and SEC Staff Accounting Bulletins 65 and 76 if and to the extent that such release and bulletins remain in full force and effect at the relevant time.

I further understand and agree that this letter agreement shall apply to all shares of Company Common Stock and Securities that I am deemed to beneficially own pursuant to applicable federal securities law.

The undersigned acknowledges that it has carefully reviewed this letter and understands the requirements hereof and the limitations imposed upon the distribution, sale, transfer or other disposition of Securities.

Sincerely,

[NAME OF COMPANY AFFILIATE]

Form of SBC Affiliate's Letter

_____, 1998

SBC Communications Inc.
175 E. Houston
San Antonio, TX 78205

Ladies and Gentlemen:

The undersigned is a holder of shares of Common Stock, par value \$1.00 per share (the "Securities"), of SBC Communications Inc., a Delaware corporation ("SBC"). Pursuant to the terms of that certain Agreement and Plan of Merger, dated as of May 10, 1998, among Ameritech Corporation, a Delaware corporation (the "Company"), SBC and SBC Delaware, Inc., a Delaware corporation and a wholly-owned subsidiary of SBC ("Merger Sub"), Merger Sub will be merged with and into the Company and the Company will become a wholly owned subsidiary of SBC (the "Merger").

The undersigned acknowledges that the undersigned may be deemed an "affiliate" of SBC as such term is used in and for purposes of Accounting Series Release Nos. 130 and 135, as amended, of the Securities and Exchange Commission (the "Commission"), although nothing contained herein shall be construed as an admission of such status.

The undersigned hereby represents to and covenants with SBC that the undersigned will not, during the 30 days prior to the effective time of the Merger sell, transfer or otherwise dispose of, or reduce any risk relative to, the Securities or any other shares of the capital stock of SBC until after such time as financial results covering at least 30 days of post-Merger operations of SBC (including the combined operations of the Company and SBC) have been published by SBC in the form of a quarterly earnings report, an effective registration statement filed with the Commission, a report to the Commission on Form 10-K, 10-Q or 8-K, or any other public filing or announcement which includes such results of operations, except to the extent permitted by, and in accordance with, SEC Accounting Series Release 135 and SEC Staff Accounting Bulletins 65 and 76 if and to the extent that such release and bulletins remain in full force and effect at the relevant time.

SBC Communications Inc.

_____, 1998

Page 2

I further understand and agree that this letter agreement shall apply to all Securities that I am deemed to beneficially own pursuant to applicable federal securities law.

The undersigned acknowledges that the undersigned has carefully reviewed this letter and understands the requirements hereof and the limitations imposed upon the sale, transfer or other disposition of Securities.

Sincerely,

[NAME OF SBC AFFILIATE]

**Categories of Ameritech's
FCC Authorizations**

CATEGORIES OF AMERITECH'S FCC AUTHORIZATIONS

- Part 5:** **Experimental Radio Service**

 - Part 22:** **Cellular Radio Telephone Service**
 Paging and Radio Telephone Service

 - Part 24:** **Narrowband Personal Communications Services**
 Broadband Personal Communications Services

 - Part 25:** **Earth Station Authorizations**

 - Part 63:** **Domestic Section 214 Authorization**
 International Section 214 Authorizations

 - Part 90:** **Business Radio Service**
 Telephone Maintenance Radio Service
 Trunked Other Industrial/Land Transportation Radio Service

 - Part 95:** **General Mobile Radio Service**

 - Part 101:** **Common Carrier Fixed Point-to-Point**
 Microwave Service
 Private Operational Fixed Point-to-Point
 Microwave Service
 Local Television Transmission Service
-

**Description of the Applicants
and Their Existing Business**

DESCRIPTION OF THE APPLICANTS AND THEIR EXISTING BUSINESSES

A. SBC

SBC's principal businesses consist of the local exchange, wireless and directory publishing services provided by operating subsidiaries of SBC. Since enactment of the 1996 Act, subsidiaries of SBC have also begun to provide Internet access service and interexchange service outside of the seven states in which SBC subsidiaries are ILECs.* The authorized capital stock of SBC consists of 7,000,000,000 shares of common stock and 10,000,000 shares of preferred stock. As of April 30, 1998, SBC had 1,838,844,294 shares of common stock issued and outstanding, and 26,060,210 shares of common stock held in treasury; no shares of preferred stock were issued and outstanding.

The ILEC subsidiaries of SBC are SWBT, Pacific Bell and Nevada Bell. SWBT has 15.7 million local exchange access lines within Texas, Missouri, Oklahoma, Kansas and Arkansas. Pacific Bell and Nevada Bell together have 17.7 million local exchange access lines within California and Nevada.

Both within those seven states, and in several other major areas, SBC's CMRS subsidiaries – SBMS, SWBW and PBMS – provide cellular and PCS services, including both local and interexchange wireless service, to a population of over 73 million persons. These companies currently serve over 5.6 million CMRS customers.**

* SBC's seven "in-region" states are Arkansas, California, Kansas, Missouri, Nevada, Oklahoma and Texas.

** SBMS operates SBC's out-of-region cellular systems in the Chicago, Boston and Baltimore/Washington metropolitan areas, and in Upstate New York. SWBW operates SBC's cellular and PCS systems within the five in-region states served by SWBT. PBMS operates PCS systems in California and Nevada.

SBC's international telecommunications interests include investments in telecommunications companies in Mexico, France, Chile, South Africa, Israel, South Korea, Taiwan and Switzerland, and an investment in a proposed trans-Pacific undersea cable system.

On January 4, 1998, SBC and SNET entered into an Agreement and Plan of Merger under which SNET would become a first tier, wholly-owned subsidiary of SBC. SNET's business consists principally of the provision of local exchange, long distance and cellular service to customers in Connecticut. SBC and SNET plan to consummate the merger by the end of 1998 after necessary federal and state regulatory approvals have been received and certain other preconditions have been met.

B. Ameritech

Ameritech is a holding company whose subsidiaries and affiliates provide a wide range of communications services, including local and long distance, cellular, PCS, paging, security, cable television, Internet access, alarm monitoring and directory publishing services. The authorized capital stock of Ameritech consists of 2,400,000,000 shares of common stock, 30,000,000 shares of preferred stock and 30,000,000 shares of preference stock. As of April 30, 1998, Ameritech had 1,100,161,364 shares of common stock issued and outstanding, and 76,993,242 shares held in treasury; no shares of preferred or preference stock were issued and outstanding.

Ameritech's landline communications subsidiaries – Illinois Bell Telephone Company, Indiana Bell Telephone Company, Inc., Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc. – together have more than 20 million local exchange access lines in five-state region.

Ameritech's subsidiaries and affiliates provide cellular services to approximately 3.5 million customers in 42 cellular markets in Illinois, Indiana, Hawaii, Michigan, Missouri, Ohio, Kentucky and Wisconsin, with a combined population of more than 20 million persons. Ameritech provides paging services to 1.5 million customers in Illinois, Indiana, Michigan, Minnesota, Missouri, Ohio and Wisconsin. Ameritech also will be introducing digital PCS service to the Cleveland and Indianapolis metropolitan trading areas this summer.

Ameritech provides telephone directory publishing and electronic advertising throughout its region, along with cable television service in 54 communities in the Chicago, Cleveland, Columbus and Detroit metropolitan areas, and has franchises to provide cable television service in an additional 22 communities in which it is not yet providing service. A subsidiary, SecurityLink by Ameritech, Inc., is North America's second largest security monitoring provider, with over one million residential and commercial accounts. Ameritech Interactive Media Services, Inc. provides Internet services and products to over 66,000 customers.

Ameritech also has significant investments in the European telecommunications industry with direct or indirect financial interests in 15 European countries, including Belgium, Denmark and Hungary.

Affidavit of James S. Kahan

AFFIDAVIT OF JAMES S. KAHAN

STATE OF TEXAS)	
)	SS
COUNTY OF BEXAR)	

JAMES S. KAHAN, being duly sworn, deposes and says:

Qualifications

1. My name is James S. Kahan. I am the Senior Vice President for Corporate Development of SBC Communications Inc. ("SBC"). I received a Bachelor's degree in Electrical Engineering from Purdue University and a Master's degree in Business Administration from the University of North Carolina. I began my professional career as an engineer with Western Electric in 1967. Prior to joining Southwestern Bell Telephone ("SWBT") in 1983 I was transferred from Western Electric to Bell Laboratories, South Central Bell, and AT&T. In 1984, I moved to SBC's Corporate Development organization where I worked on the acquisition of Metromedia's cellular and paging systems and various other cellular acquisitions. In 1988 I became Managing Director-Corporate Development and I was responsible for SBC's mergers and acquisitions activities and international business development. During this time I was involved in negotiating SBC's participation in a consortium which purchased a controlling interest in Telefonos de Mexico ("Telmex"). I was appointed Senior Vice President for Corporate Development and became an Officer of SBC in 1992.
2. From 1993 through 1995, I was also principally responsible for SBC's strategic planning, marketing and development of long-term business growth strategies. I have been actively involved in and the lead negotiator of SBC's acquisitions of Pacific Telesis Group, SNET and Ameritech Corporation. In the course of negotiating the

SBC/Ameritech merger, I also directed the preparation and analysis of SBC's strategic initiative to offer local exchange services in 30 of the largest Metropolitan Statistical Areas ("MSAs") in addition to those served by the combined SBC/Ameritech. I am intimately familiar with the strategic imperatives that drove SBC to enter into the negotiations to acquire Ameritech as well as with the various business plans prepared as a part of the analysis of that merger.

Purpose of Affidavit

3. In this Affidavit I will:

- Summarize the evolution of SBC's understanding of trends affecting the telecommunications industry and SBC's role within that industry;
- Explain our view of the telecommunications environment today and the strategic objectives that led us to pursue the National-Local Strategy;
- Describe the National-Local Strategy in detail;
- Explain the integral relationship between the Ameritech acquisition and SBC's "National-Local Strategy";
- Comment on the public interest implications of the strategy, and its potential to stimulate full competition in the telecommunications market; and
- Report on the effects of SBC's merger with Pacific Telesis on jobs, service and investment in California.

The Evolution of SBC's Strategy

4. SBC has progressed in its strategic thinking through three broad phases, with most of the changes in strategy occurring in the last three years. These phases can be summarized as:

- a) Regional focus with opportunistic acquisitions.
- b) The pursuit of scale and scope economies.
- c) National and global ambitions.

5. The first phase began with the AT&T divestiture in 1984 and lasted until approximately six months prior to the enactment of the 1996 Act. In this first phase, SBC regarded itself as a regional telecommunications company. We were not interested in becoming, and were not able to become, a true national or international integrated provider of telecommunications services. While we made several domestic and international acquisitions, we perceived them as being "opportunistic" – that is, we were looking for situations where we could invest in or acquire other companies at an attractive price and add value by leveraging our own management skills and core strengths.

6. The second phase of the evolution of SBC's strategic thinking began in the fall of 1995, when the passage of the Telecommunications Act of 1996 (the "1996 Act") was clearly in view, and continued until approximately the fall of 1997. During this period, we explored domestic expansion opportunities based on our existing assets. We focused on the company's anticipated entry into the long distance business. We also analyzed possible out-of-region local exchange entry through the use of our wireless platforms, primarily as a defensive measure to retain cellular customers who would be solicited by wireless carriers who also offered local service.

7. We started this stage believing that we could remain a regional company and continue to deliver superior shareholder value. However, after analyzing the full implications of the 1996 Act and examining emerging trends, we ultimately came to the conclusion that SBC should seek to dramatically expand the scale and scope of its operations in order to grow and succeed in the fiercely competitive environment which we anticipated as a result of the 1996 Act. The defining moment in that period was the overture we received from Pacific Telesis to begin negotiations regarding a possible merger. Those discussions began initially in the fall of 1995 and were postponed, at SBC's insistence, until after the passage of the 1996 Act.

8. For the most part, we viewed the Pacific Telesis merger (and the subsequent agreement with SNET) as the first step in expanding our company's geographic reach and as an opportunity to achieve efficiencies by spreading common costs over a larger base and by sharing best practices. Through these measures, SBC hoped to prepare for the vigorous competition which all of us expected in all segments of our industry.

9. Following the closing of the SBC/Pacific Telesis merger on April 1, 1997, SBC was still viewed as essentially a regional company – but with the potential cost advantage of a much bigger region than we formerly served. We were alert for additional opportunities to expand our geographic scope and achieve a broader presence, such as the agreement to acquire SNET. We perceived ourselves as a potential player on a national, and ultimately global, scale.

10. However, the third (and current) phase really began in earnest during the fall of 1997 after events in the industry compelled SBC to more aggressively seek to become a national, and ultimately an international, enterprise in order to remain a viable contender for the many growth opportunities which we anticipated. The "wake-up call"

for us was the consolidation of MCI/WorldCom/MFS/Brooks/UUNet into a potent new force that directly threatened SBC's ability to compete for the business of very large business customers. Competitors such as this have national and even global reach, enormous resources, and the ability to offer a full range of services including, especially, the capability of providing the advanced data services which are critical to large corporations. Our merger with Pacific Telesis and exposure to the sophisticated telecommunications market in California helped us appreciate the importance of data services to SBC's future success.

11. We explored alternatives for expanding our business in order to respond to these new competitive threats. The alternatives included joint ventures and de novo entry on a national basis. We rejected joint ventures as a solution because they were believed to be inherently unstable and, we believed, incapable of providing long term viability in the market. We also rejected the concept of de novo entry because we concluded that such entry would be ineffective unless it was undertaken on a massive scale (as reflected in our current National-Local Strategy). We did not believe that SBC, even after the Pacific Telesis merger, possessed the resources necessary for such an effort. In particular, we did not have the management depth or (as I will discuss later) the critical mass of major customers that we can follow to establish a beachhead in out-of-region markets. In addition, such an undertaking would severely dilute our earnings for an extended period.

12. Our strategy crystallized with the conclusion that neither joint ventures nor de novo entry was a feasible solution to SBC's goal of becoming a national and international competitor. By early 1998, we were firmly committed to becoming a national and international telecommunications company, but we did not have an implementation

strategy. We knew we had to expand rapidly, but we also knew SBC did not have the scale and scope to be the first to tackle that expansion alone. So we began looking for a partner that had a similar philosophy and was willing to join forces with us to make our new strategic vision a reality. Discussions with Ameritech followed and culminated in the announcement of SBC's National-Local Strategy and the proposed acquisition of Ameritech.

13. The core of the National-Local Strategy is the conclusion that SBC must develop the capability to compete for the business of large national and global customers both in-region and out-of-region. We cannot remain idle while our competitors capture the huge traffic volumes generated by a relatively small number of larger customers. For example, at Southwestern Bell Telephone Company, the top 809 large businesses represent only 1% of SWBT's business customers, but they generate 37% of the revenues generated by medium and large businesses, 18% of all SWBT business revenues, and 8% of the company's total revenues. The exponential growth of data traffic generated by such customers, and the prospect of competing for their long-distance business when legal prohibitions are removed, suggests that such customers will be even more important in the future. The revenues generated by these accounts make a critical contribution to the coverage of the common costs associated with the network that serves all market segments.

14. By competing successfully for the traffic of large businesses, SBC will also retain the ability in-region to offer affordable, high quality and innovative products and services to our residential and smaller business customers. In addition, our investments in out-of-region markets, although initially made to accommodate major national accounts, will also provide the foundation with which we can compete with the incumbent(s) for

residential and small business customers. Indeed, the business case for our National-Local Strategy assumes that penetration of the residential and small business segments will begin in the first year following implementation of the strategy.

15. To summarize, the National-Local Strategy represents the culmination of major changes in SBC's strategic direction that have evolved in just the last three years.

These changes are the product of a dramatically new environment in the telecommunications market, which has compelled SBC to reevaluate its role in the industry and the means by which it will continue to deliver value for its shareholders.

The New Telecommunications Environment

The Advent of Local Exchange Competition

16. The passage of the 1996 Act has markedly changed how telecommunication services are being provided today and will be provided in the future. Prior to the passage of the Act, the telecom business was essentially segmented by regulatory fiat. BOCs were generally limited to providing local exchange service and none other. In addition, they were limited by geographic region due to the existence of geographic franchises granted by the various states. To a significant extent local exchange service was a legal monopoly market which could not be entered by anyone other than the franchised incumbent. In exchange for this exclusive local monopoly, local exchange carriers had an obligation to be the carrier of last resort and to provide service at regulated prices to any customer wherever they might be located regardless of the cost of doing so.

17. These local exchange carriers operated under a rate of return regulation that limited earnings to an amount prescribed by regulators. This model served the United

States well as it drove the development of a nationwide, ubiquitous, high-quality network. It provided local exchange services to anyone who wanted them at affordable prices. This regime was characterized by a complex system of subsidies which allowed basic residential local exchange service to be provided below the actual cost of providing that service with corresponding offsets in business services and exchange access which are priced well above the marginal cost of providing these services.

18. For a few years before the passage of the 1996 Act, we began to see some modifications in this regulatory plan as price cap regulation was put in place in almost every state. This regulation resulted from the recognition that rate of return regulation led to inefficiency. A company could increase its earnings by increasing its investment, but had little incentive to cut costs. While the rate of return model worked well at a time when the network was not well developed, such incentives were no longer appropriate in the late '80s and early '90s. Even with the advent of price cap regulation, however, the strict segregation of providers by line of business or service offered remained in place, as did the various pricing subsidies discussed above.

19. Over time, this legislated local exchange monopoly began to erode at the edges and competition began to creep into the market. The competition first focused on business customers, where the system of subsidies had distorted the pricing and created opportunities for competitive access providers ("CAPs") and others to offer alternative services below the inflated prices set by regulators. Still, the underlying obligation to be a carrier of last resort and, more importantly, the basic legal monopoly franchise, continued.

20. With a few state-specific exceptions, the 1996 Act effected the elimination of the local exchange monopoly franchise. As a result of the 1996 Act, full local exchange competition is now legally and practically possible.

21. Ironically, the Act also placed incumbent local exchange carriers ("ILECs") such as SBC in an unsustainable quandary. On the one hand, we compete against large, fully integrated national and global carriers (as discussed below) and providers who can serve large business customers on an unregulated basis. The prices which the ILECs charge these customers have been maintained at artificially high levels in order to subsidize the rates charged residential customers through regulatory fiat. At the same time, an ILEC, while opening its markets to competition, must continue to provide service at prices that are capped to all customers regardless of their profitability.

22. We believe that SBC can no longer remain a regional carrier overrun with competition at the high profit end of the market spectrum while continuing to labor under the obligations of a carrier of last resort at the low end. In order to compete successfully and thrive in this new telecom marketplace, a stand-alone and static strategy is, in our judgment, no longer viable for SBC.

Current Trends

23. The advent of full competition has brought forth a plethora of new entrants into the telecommunications industry while at the same time initiating a trend towards consolidation. In SBC's view, this trend will likely result in an industry populated by at least two types of firms. On the one hand, there will be a large number of nimble, efficient and well-financed regional or niche players serving distinct geographic areas or market segments. At the same time, there will be a smaller number of well recognized,

financially strong, technically capable, fully integrated national and global competitors who will compete to serve the global needs of large business customers and, at the same time, provide effective competition to the ILECs for medium and small business and residential customers. As evidenced by SBC's actions to date and specifically by SBC's commitment to the National-Local Strategy, SBC and Ameritech have chosen to become such a national and global competitor.

24. Customers now see an opportunity to obtain what they want -- the option of having one principal source of service, one source of contact and consolidated lines across the nation and around the world. Telecommunication companies that are not satisfied with being regional and/or niche competitors are moving to obtain the capabilities necessary to provide such services around the world. In order to be effective in this global marketplace, carriers must have significantly expanded scale and scope efficiencies and geographic capabilities.

25. While SBC and Ameritech have concluded that a regional or niche strategy is not in the best interests of their customers, employees and shareholders, it is an appropriate, viable, even compelling opportunity for other companies. These companies can be extremely effective competitors for certain segments of the business and residential customer base. This is particularly true for new entrants in light of the pro-competitive market opening requirements of the 1996 Act, which make available to such companies unbundled elements and resale capabilities that piggyback on the cost efficiencies of the existing incumbent.

26. Unlike the ILECs, many of these regional and niche providers will focus exclusively on specific segments of the market (e.g., mid-size business customers, multi-tenant dwelling units) and rely on the incumbent to make ubiquitous services

available for resale or to provide unbundled elements at attractive rates. These regional and niche competitors can provide a package of goods and services without the significant capital and other requirements of the ILECs. As such, the niche providers are positioned to be very effective and profitable competitors.

Description of SBC's Out-of-Region Business Plan

Overview

27. SBC's out-of-region business plan has domestic and international components. The domestic plan, which we refer to as the National-Local Strategy, contemplates SBC/Ameritech rapidly entering into 30 of the largest Metropolitan Statistical Areas ("MSAs") in the United States outside of SBC's and Ameritech's combined territory. This competitive entry will involve a full range of offerings, including local exchange, long distance, high-speed data and other telecommunications services. The plan also contemplates the combined companies' expansion into numerous foreign markets. This business plan is a critical, indeed indispensable, component of the SBC/Ameritech merger. As I will explain in more detail below, SBC would not undertake this merger without the National-Local Strategy. By the same token, absent the merger SBC does not believe it could undertake the task of competing out-of-region in all the key domestic and international local exchange markets.

28. In preparing the financial analysis for this business plan, SBC devoted significant internal resources, consulted with advisors, and employed the same customer-focused, financially driven planning process that it utilizes in preparing its day-to-day operating business plans. The SBC team that prepared the National-Local Strategy, under my direction, has extensive experience in preparing such business plans and exercised its

collective best judgment in preparing this particular plan. At the same time, due to the importance of the National-Local Strategy, SBC drew upon the significant experience and resources of our investment bankers in analyzing market entry and in substantiating the viability of the plan.

29. The National-Local Strategy consists of three separate but interrelated sections that were then combined into a single overall plan. The three sections focused on different customer and service segments to provide additional clarity to the planning process. Each section includes its own projections of capital costs, personnel requirements and administrative expenses.

30. One section focused on the thousand largest companies in the United States, many of which have global needs and requirements. Due to their size and geographic diversity, these customers have unique telecommunications needs. Many of these companies are now looking for a single or primary source to provide a substantial majority of the telecommunications services. By utilizing a single source, large customers can capture economies of scope and scale, ensure uniformity of service and functionality across the enterprise, and rely on a single point of accountability for keeping the network up and running. These customers seek the same services, features, functions and capabilities for all of their locations, which can only be provided by a company that has facilities-based capabilities across the United States and, in many cases, around the world. Thus, in order to even be considered as a potential provider to this important segment, a provider must be able to demonstrate a nationwide and ultimately a worldwide capability.

31. The second section of the National-Local Strategy focuses on smaller businesses and residential customers. Just as the large corporations have their own

special needs for telecommunications services, so too do smaller businesses and residential consumers, although the latter types of customers are generally looking for a different subset of services and will require a different focus in marketing as well as service capabilities. For example, while large businesses may have their own PBX which serves hundreds of lines, small businesses and residential customers want features such as call waiting which are not demanded by large businesses.

32. The third section of this National-Local Strategy focuses on the data needs of telecommunications customers. While this is primarily directed at business customers, it does contemplate the availability of a nationwide Internet Protocol ("IP") based network capable of providing advanced data and Internet access capabilities to all types of customers.

33. By preparing this business plan in these three components, SBC was able to analyze the resources needed to address the telecommunications needs of each of the unique customer segments in the industry today. In addition, we reviewed the need to construct or acquire facilities necessary to provide the services demanded by each market segment as we prepare to enter these highly competitive markets.

34. The National-Local Strategy contemplates the rapid entry by the combined SBC/Ameritech companies into 30 of the largest MSAs in the United States outside of our existing local exchange regions. SBC will install switches in each of these markets within three years after the closing of our merger with Ameritech. This local exchange entry will be the broadest and deepest such entry undertaken by any telecommunications company in the United States to date. The 30 MSAs in which SBC expects to provide local exchange services include New York, Boston, Washington, Baltimore, Phoenix, Providence, Atlanta, Denver and other markets shown on

Attachment A to this affidavit. These 30 markets currently include 70 million people, 31 percent of the U.S. total and 53 percent of the population outside the home regions of SBC and Ameritech. The ILECs in these markets currently serve 18 million business lines, 37 percent of the U.S. total and 51 percent of the business lines outside the current wireline territories served by SBC and Ameritech.

35. We are continuing to refine our analysis of these markets by studying the locations where our current customers have facilities. As a result of this review, we may modify this list to ensure we are in the markets in which our customers have significant operations. With the entry into these 30 markets, the new SBC will be a facilities-based local exchange provider in 50 of the largest MSAs in the country.

36. In entering these markets, SBC from the outset will serve not only large corporate customers, but also medium and small business customers and residential customers on an extensive basis. SBC's entry into these markets will be costly from a capital and manpower basis and will require the extensive management and technical expertise of the combined SBC/Ameritech. This is particularly true since, as a result of this National-Local Strategy, SBC will be entering local markets served by and competing with incumbent local exchange carriers such as Bell Atlantic, BellSouth, US West and GTE. In addition to competing with these incumbent carriers, SBC will also be simultaneously competing with the various global, regional and niche competitors who are serving these markets. These competitors include established enterprises such as AT&T/Teleport/TCI, MCI/WorldCom/MFS/Brooks Fiber/UUNet, and Sprint/France Telecom/Deutsche Telekom, and new entrants such as Level 3 Communications, Qwest/ LCI, WinStar, Teligent and hundreds if not thousands of other CLECs and long distance providers.

37. Each section of the National-Local Strategy contemplates the construction or acquisition of significant facilities to serve the customers' needs. For example, the large and mid-size business segment alone contemplates the placement of in excess of 60 switches in the 30 markets across the United States. The strategy for the small business and residential customer segment contemplates the installation of over 80 additional switches in these markets. These switches will enable SBC to provide a full range of services for its customers in these markets. This business plan not only identifies the particular markets which will be entered, but includes plans for the placement of certain switches by market, the installation of fiber and the deployment of personnel and other resources.

38. In addition to installing switches, SBC believes it will be necessary to develop its own fiber networks, which will ultimately include more than 2,900 fiber miles – between 75 and 125 miles in each of the 30 out-of-region markets. This approach is in stark contrast to other companies, which have constructed and provided fiber primarily to provide intercity transport. Instead, our fiber will be available to provide local exchange services in the 30 MSAs which SBC contemplates entering. As a result, this 2,900 miles of fiber is of greater strategic value in providing local exchange competition than the intercity transport networks which have been constructed by many other companies.

39. SBC will be able to devote its fiber in these markets to the provision of competitive local exchange service due to the extensive availability of intercity transport from companies such as Qwest, Williams and other transport providers. By utilizing a "smart build" strategy, i.e., focusing SBC's capital where other transport is not physically or economically available, SBC will construct its fiber networks where the customers most need them and will otherwise utilize available inter-city and other transport

capabilities that are already constructed to most efficiently manage SBC's capital. These fiber networks and switches will be supplemented by extensive utilization of unbundled network elements, primarily local loops. In SBC's judgment, it is critical that it utilize its own strategic facilities to the fullest extent possible both for residential and business customers so that it can position itself to design, manage and develop the services, features and functionality necessary for large corporate customers, as well as to differentiate itself in the marketplace through the availability of new and innovative services. This strategy will also facilitate the utilization of economies of scale and scope which can be gained by offering such service capabilities on a broad geographic scale.

40. In implementing this National-Local Strategy, it is essential that SBC fully utilize all of the assets that will be available to the combined SBC/Ameritech. In particular, in order to minimize the enormous risk of such a broad-based entry against such significant competitors, we focused on building upon the combined company's customer base and other assets. Accordingly, the National-Local Strategy contemplates initially marketing to and securing the business of large corporations with multi-state requirements whose headquarters are located in the new SBC territory. These customers can form the base or anchor tenants for our deeper entry into the 30 MSAs.

41. For example, corporations that have locations in certain markets can provide the base that will justify the initial placement of personnel, switching capacity and the construction of fiber capabilities in those markets. Once those resources are in place, SBC can utilize those assets to expand its market entry to other large businesses, and to deepen its market penetration to medium and small businesses and to residential customers. As a result, these large corporations become the foundation for the new SBC's entry into the local exchange market and form the anchor for residential local

exchange entry. Indeed, the need to broaden SBC's existing customer base which expands the universe of customers who can be followed in this 30 market plan is one of the key drivers in the SBC/Ameritech merger.

42. Combining this "smart build" approach with following existing customers is analogous to the strategy utilized by competitive access providers when they first entered the local exchange market. While the CAPs were focusing only on business customers, they generally would not place facilities to a particular building or campus until they had one or more customers physically located there. Once those customers had agreed to purchase services from the CAP, it could then use the facilities and other resources placed to serve that particular customer as a basis on which to provide service to other businesses in the area. SBC has expanded this strategy significantly to form the basis for a very aggressive National-Local Strategy to become a nationwide and ultimately global provider of local and other telecommunications services.

43. Revenue and customer penetration is targeted to grow quickly under the National-Local Strategy. We are aiming for \$2 billion in revenue by 2003 and more than \$7 billion in revenue by 2008. Earnings are estimated to turn positive in 2003. SBC expects to capture between 5-10% of the addressable business and residential customers by the end of the plan.

44. These expectations are significant for two reasons. First, the level of penetration in these markets is both evidence of and a good predictor of SBC's commitment to this business plan. Second, to achieve these levels of penetration SBC must be an effective competitor. This is particularly true since SBC will be competing not just with the incumbent local exchange providers, or just with all the other national/global competitors that are in those markets, but with all the niche competitors as well. To achieve these

targets, SBC must offer new and innovative services and features and packages of those services and features at competitive prices. All consumers, regardless of the market segments in which those consumers might be, are the winners when a company such as the new SBC can enter these markets and provide such a competitive offering.

45. In this section I have only provided an overview of the most important features of our National-Local Strategy and how it was devised. I will now turn to a more detailed description of various aspects of that plan.

Selection of Initial Target Markets

46. The new SBC created as a result of this merger will implement a prompt entry into 30 of the top MSAs in the country in which it is not an incumbent local exchange carrier. SBC believes it must ultimately be in each of the largest markets in the country in order to retain and attract the largest business customers. Once SBC is in those markets, it must utilize the assets, personnel and facilities in place to the fullest extent possible in order to insure the ultimate success of this National-Local Strategy. With the new SBC's experience and expertise in providing telecommunication services, we believe we can effectively utilize these assets to serve both business and residential customers.

47. The top 50 markets represent our view of where we must be in order to have a presence in the locations where our largest customers have facilities. SBC is continuing to refine this strategy and, through external data sources, determine where the corporations that are located in our regions have the most regional and other locations outside of our home region.

48. The need to be in these fifty markets can best be illustrated by an example. One of our most fundamental assumptions is that, in order to compete effectively for the business of our largest customers, we must have "coverage" of approximately seventy to eighty percent (70% - 80%) of the telecommunications expenditures made by those customers. We believe our rivals will certainly be able to offer such coverage. Any lesser coverage by SBC will, we believe, disqualify SBC from consideration by such customers as their prime contractor for telecommunications services.

49. We have identified 224 Fortune 500 companies that are headquartered in the 13 states served by SBC, Ameritech and SNET. Utilizing information derived from data available from WEFA, which describes a company's expenditures for local and long distance services, we calculated the number of these Fortune 500 companies for whom we could meet our 70% - 80% coverage standard. This data also allows us to determine the percentage of these customers' sites or locations which we could serve.

50. We analyzed this coverage assuming that SBC (together with SNET) acted alone. We assumed that SBC would attempt to serve these 224 customers with facilities in its home region and in the 15 largest MSAs outside of SBC's region – the maximum out-of-region expansion that we thought was feasible for SBC alone. We did the same comparison assuming we close this merger with Ameritech and execute our National Local Strategy. The difference in these calculations conclusively demonstrates why this merger and the National-Local Strategy are critical to the success of SBC's plans.

51. If SBC alone enters the 15 largest MSAs, it will reach its goal of having 70-80% coverage for only 36 of the 224 companies studied on the basis of revenues and only 13 companies on the basis of sites covered. By comparison, when the combined

SBC/Ameritech completes its National-Local Strategy, it will meet the desired 70-80% coverage for 131 companies based on revenues and 86 companies based on sites.

52. Phoenix, Arizona is an excellent example of how this "follow our customer" strategy will work. In Phoenix, we have identified 2,126 locations owned or operated by businesses that are headquartered in the Ameritech, SNET or SBC territory. We know that these businesses spend \$70 million on local and long distance services annually.

53. However, sixty (60%) of these business locations belong to customers whose headquarters are in Ameritech's region -- absent the combination of our companies, neither SBC nor Ameritech would have a sufficiently large customer base to follow into Phoenix. Together, however, the base of customers followed can become the anchor tenants for our entry into that market.

54. Not only must SBC be in each of these markets, we must enter them promptly. We cannot be competitive in responding to requests for proposals from multi-location customers by promising a customer that we will be in a certain market a few years from now. Customers want service where they are today and they want service now. As a result, SBC is compelled to promptly enter each of these 30 markets in order to effectively implement this strategy.

Extensive Facilities-Based Entry

55. SBC will first focus on the deployment of switches, switch upgrades, multiplexing equipment, access equipment and office equipment to serve large and medium-sized businesses. As I mentioned previously, the plan contemplates the placement of at least 60 switches out-of-region to serve large and mid-size business customers, and an additional 80 switches to serve residential and small business accounts. The

architecture of each network, and the facilities used, will vary from market to market – SBC will build, buy, partner with another CLEC or combine elements of each of those approaches. We also intend to rely on interexchange carriers for the wholesale provision of long distance transport. Our current strategy contemplates that we will have at least two switches located in each of these 30 markets within three years of the closing of the SBC/Ameritech merger. Indeed, in some of the largest markets, we will have three or more switches operational within three years of the closing of this merger. In addition, our current planning contemplates that we will place switches in international markets within five years of the closing the SBC-Ameritech merger. These national and international markets will be linked primarily through transport facilities leased from third parties.

56. In addition, once we have these switches in place and as we implement our "smart build" strategy, we will have assets in place that will allow us to serve small business and residential customers. In doing so, we will offer packages of local exchange and long distance along with vertical features that our residential and business customers most want. Furthermore, as we provide new services and new capabilities to our large corporate customers, we will market these services to medium size businesses as well, creating even more opportunities for SBC to utilize this base of assets and take advantage of the potential economies of scale and scope made possible through this merger.

Resource Commitment

57. As one would expect when constructing 2,900 miles of fiber and placing into operation 140 switches, SBC's National-Local Strategy will require extensive capital

investment and the commitment of extensive financial and managerial resources. The National-Local Strategy calls for the investment of more than \$2 billion in capital expenditures. This capital requirement is in addition to the capital requirements the new SBC must bear as it continues to enhance and maintain its local exchange networks in those markets where it is an in-region provider.

58. Over the next ten years, the operating expenses involved in these out-of-region operations will be in excess of \$23.5 billion. In addition, these capital requirements and operating expenses are heavily weighted towards the early years of the business plan -- a return on this investment does not occur until the later years. Indeed, the magnitude of the investment required to sustain this venture is demonstrated by the fact that these operations are expected to generate negative cumulative cash flow until the ninth year of the National-Local Strategy.

59. Nor can you undertake such a significant business operation without a substantial number of highly skilled employees. Indeed, we anticipate that at the end of 10 years we will have over 8,000 new employees devoted solely to this out-of-region business plan. By way of comparison, MFS, one of the largest and oldest CLEC's in the country, has been in business nearly 12 years and has less than 4,000 employees today.

60. The employees for this new venture will receive compensation and benefits commensurate with the skill level required to be a successful provider of telecommunications services. The total employee-based selling, general and administrative expense for the large business segment ranges from over \$8 million in 1999 to nearly \$370 million in calendar year 2008. When you consider all of the other sales and marketing expenses and network operating expenses, the total selling,

general and administrative expenses in this segment of the business plan range from \$8 million in 1999 to \$460 million in 2008.

61. Such a vast undertaking clearly requires significant management resources and talent, extensive and sophisticated training capabilities and a large body of support personnel at the corporate level to provide the benefits and programs required to effectively place and maintain these employees in 30 markets around the country. Neither SBC nor Ameritech alone has the management resources to undertake such an ambitious program.

Penetration of Small Business and Residential Segments

62. As I described above, our small business/residential strategy is built from the bottom up. By that I mean we worked from anticipated service offerings, customer demands, and market share penetrations to determine the switching and other requirements which we will need in those markets. Within the next ten years, the 30 out-of-region markets will have 30 million households and 10 million small businesses. We project that the average number of lines will rise from 1.25 to 1.58 per household, and from 3.0 to 4.13 for small businesses.

63. SBC will begin offering service to residential customers within one year of the closing with Ameritech, and plans to offer service to a majority of the households in the 30 out-of-region markets within four years of closing. We anticipate that we will achieve an overall penetration rate of 4 percent of the residential customers in all of these 30 markets. These customers will be offered packages of services that will include local, long distance, and other features in a single offering. We anticipate achieving similar results in the small business segment. To achieve these results, SBC anticipates

spending approximately \$500 per line ultimately served on customer acquisition, product development and marketing expenses related to residential and small business customers – a total of approximately \$1.4 billion.

64. There is significant competition for the large and mid-sized business customers -- for whom prices have been maintained at artificially high levels through regulatory mandates. No company, however, has announced plans to attempt to serve residential and small business customers on such a broad geographic basis as SBC will undertake with its National-Local Strategy. For example, CAPs have focused on business customers with the largest business customers being their first choice for service. Companies such as MFS, ICG and others, all of whom are constructing facilities and have a limited number of switches in place, have as their primary focus serving business customers. Indeed, doubts have been raised about MCI/WorldCom's commitment to serving even its existing residential customer base for long distance service, much less its commitment to providing local exchange services to residential customers on a competitive basis.

Global Expansion

65. With the rapid globalization of business and of the telecommunications industry, stimulated by recent initiatives such as the landmark World Trade Organization agreements, it is increasingly important that the U.S. develop truly international telecommunications competitors. Otherwise, the U.S. risks being relegated to a supportive role in the growth of the global digital economy.

66. SBC believes that, in order to be fully competitive in this global telecommunications market, we must ultimately be able to provide facilities-based

services in other markets around the world. The proposed merger will combine Ameritech's existing international operations in Belgium, Denmark, Norway, and Hungary which it undertakes directly (a complete description is available at www.ameritech.com/corporate/international) or indirectly through TeleDanmark (described more fully in Attachment B) with SBC's current international operations in France, Switzerland, Asia, South Africa and Mexico (described more fully in Attachment C). SBC invested over \$3.1 billion in making its initial investment in these countries. These investments by SBC have provided significant social and economic benefits in those countries. A brief description of SBC's activities in South Africa is contained in Attachment G to this Affidavit.

67. In addition, SBC plans a global expansion in order to become a U.S.-based global carrier capable of competing for U.S. and other multi-national companies with global operations. As we follow our largest customers domestically to out-of-region markets, the realities of the marketplace will also require that we follow them to their foreign locations as well. As a result, SBC has developed plans (which, due to a lack of regulatory clarity, are somewhat preliminary) to place switches in 14 major foreign markets within five years after closing the SBC/Ameritech merger. These plans include European markets such as Berlin, Hamburg, Frankfurt, and London; South American markets such as Rio de Janeiro and Sao Paulo; and Asian markets including Tokyo, Hong Kong and Singapore. SBC's international plans contemplate having at least one switch in each city by 2001, ultimately expanding to 27 switches by the end of the plan. As is true in our National-Local Strategy, SBC also plans to construct fiber in these cities, with 1,400 km. of fiber to be in place within two years of closing and more than

2,000 km. of fiber by the end of the plan. We estimate employing 3,500 employees in these cities by the end of the plan.

68. Just as it is necessary for SBC to be present in all of the top 50 United States MSAs in order to be the principal supplier of telecom services for major United States companies, so also are these international operations critical to SBC's ability to compete in the global market to provide telecommunication services to large multinational corporations. This strategy will place SBC in direct competition with such global providers as British Telecom, Deutsche Telekom/France Telecom/Sprint, AT&T/Teleport/TCI, NTT, MCI/WorldCom/MFS/Brooks Fiber/UUNet, and Cable and Wireless. Many of these companies have significant advantages in providing service to large corporations around the world. Cable and Wireless' capabilities will be significantly enhanced by its proposed acquisition of MCI's Internet business. Only through this merger with Ameritech, and the resulting ability to implement this nationwide and global strategy, can SBC hope to be competitive with such large international competitors.

Benefits of SBC and Ameritech Experience with Out-of-Region Competition

69. SBC and Ameritech have significant experience in competing out-of-region. SBC has been an effective competitor out-of-region in the wireless market since 1987. Ameritech, while having less domestic out-of-region experience in the telecommunications business, has a nationwide alarm monitoring business, which is a highly competitive market. The companies' combined experience in such competitive markets is of tremendous value to SBC in implementing this plan and provides evidence of our ability to compete vigorously as we implement the National-Local Strategy.

70. In 1986, SBC owned a relatively small wireless company with cellular licenses in parts of only four states -- Texas, Missouri, Oklahoma and Kansas. In September of 1986, SBC announced its acquisition of the cellular assets of Metromedia and immediately transformed a small geographically limited wireless company into a potential market leader.

71. But, this acquisition was met with widespread skepticism. Indeed, SBC was soundly criticized by analysts who claimed that we had paid too much for these assets. Critics questioned SBC's ability to compete with the wireless affiliates of incumbent local exchange carriers in Washington/Baltimore, Boston and Chicago. They pointed out that the systems we were acquiring were not fully constructed and that we would have to invest large sums just to develop a suitable network. Our ability to market our service once we had a network was questioned.

72. We proved our critics wrong. Today our wireless networks in Chicago, Washington, Baltimore and Boston are robust and fully developed. We have nine switches and 708 cell sites in place in Chicago alone. We have 292 cell sites in Washington, D.C., 121 in Baltimore and 190 sites in Boston. Of these 1,311 cell sites, 1,293 are digital sites using TDMA technology.

73. While we do not publicly disclose our penetration on a market-specific basis, our current overall cellular penetration of 12.2 percent puts SBC among the market leaders. Since nearly two-thirds of our traditional cellular POPs are in our out-of-region markets, we could not have obtained such a high overall presentation level without being very effective in these out-of-region markets. We market cellular service through over 6,000 sales outlets throughout our cellular service areas. Most of this distribution is located in our out-of-region markets.

74. A great deal has been learned from these efforts. The numbers speak for themselves. Stan Sigman notes in his affidavit, also attached to this application, that we have also learned lessons about certain activities that will not work well. This knowledge too is critical as we begin an aggressive implementation of our National-Local Strategy.

The Ameritech Merger is Essential to the National-Local Strategy

75. In the absence of the merger with Ameritech, the National-Local Strategy will not work. The problem is not primarily that SBC, on a stand-alone basis, is incapable of raising the capital necessary to fund the National-Local Strategy. The more important constraints are (a) customer base, (b) personnel, and (c) earnings dilution and market reaction.

76. As I have previously discussed, the combination of SBC and Ameritech creates a company with a broader geographic customer base to be "followed" and in turn will be the base for the entry into the related customer segments. On its own, SBC lacks a sufficiently broad customer base to allow SBC to be competitive when faced with the onslaught of competition from companies such as AT&T/Teleport/TCI, MCI/WorldCom/MFS/Brooks Fiber/UUNet, Sprint/France Telecom/Deutsche Telekom and other global competitors -- each of whom have a nationwide/global network, customer base and brand name recognition.

77. Equally important, the merger creates a much deeper pool of management and employee talent that is essential to carrying out this National-Local strategy. The necessity for extraordinary management and employee depth is particularly compelling when you consider the training and hiring demands that will be placed on a company to

generate over 8,000 broadly dispersed, highly skilled jobs on such a rapid basis. On a stand-alone basis, SBC simply does not have a strong enough bench to undertake anything as ambitious as the National-Local Strategy.

78. The merger creates a far larger pool of employees on which to draw in implementing the strategy. Even with Ameritech, we will be challenged to meet the personnel requirements of the strategy. It will still be necessary to hire significant numbers of new employees. However, the merger creates a larger cadre of managerial and technical talent on which we can draw. It has generally been our experience that staffing new ventures with a significant number of existing managers is preferable to relying extensively on newly hired managers.

79. Furthermore, the investment community measures SBC's performance by its ability to deliver earnings growth. This constraint is in stark contrast to start-up firms that the stock market evaluates on the basis of various factors other than earnings. SBC will experience significant earnings dilution and increased risk as a result of the start-up costs and losses during the earlier years of the National-Local Strategy. This dilution cannot be borne by SBC alone. By spreading that dilution and risk across a broader base of shareholders, the combined SBC/Ameritech can continue to provide investors with appropriate returns notwithstanding the costly National-Local Strategy. SBC would not, on its own, expose its smaller base of shareholders to the dilution and extensive risk of the National-Local Strategy.

80. Indeed, the business plan contemplates having a cumulative negative cash flow for nearly ten years. The remaining business operations of the new SBC must carry these negative cash flows while we continue to grow our existing business, grow our customer base, compete in the market where we are the incumbent, maintain and

enhance our existing networks and fund dividends. In fact, a significant percentage of the projected positive net present value in the business plan is a result of favorable results in the later years of the plan. Again, SBC on a stand-alone basis could not reasonably accept those short-term and medium-term losses, particularly given the rapidly changing nature of the industry that makes more distant gains less certain.

81. In contrast, however, the combined SBC/Ameritech can better absorb, reduce and manage those losses and the attendant risks. With the expanded base of customers to follow and expanded management/employee pool, and the scale and scope efficiencies which can be derived from combining these two companies, the new SBC can and will undertake this National-Local Strategy and make it a winning proposition for shareholders.

82. Inevitably, some pundits and industry rivals have characterized SBC's National-Local Strategy as a regulatory carrot that SBC has dangled in front of the FCC and other agencies in order to obtain approval of the Ameritech merger. In other words, they suppose that the National-Local Strategy is a means in order to achieve the objective of acquiring Ameritech.

83. SBC's perspective is exactly the opposite. We regard the Ameritech merger as the means and the National-Local Strategy as the objective. In view of the substantial premium paid by SBC's current shareholders to acquire Ameritech (approximately \$13 billion), the Ameritech merger on its own is certainly not a compelling business opportunity for SBC. From SBC's perspective, the real upside for our current shareholders results from our ability, as a result of the merger, to preserve and create value for our shareholders by pursuing the National-Local Strategy.

84. In seeking approval for the SBC/Ameritech merger, SBC management reviewed with its Board of Directors the significant changes occurring in the telecommunications market today – the same changes that I have described in this Affidavit. We told the Board that it was our judgment that the market is characterized by rapid technological changes, globalization and continuing trends towards both additional consolidation of large carriers and fragmentation of the market by niche and regional competitors. SBC's competitive viability will be profoundly affected by both trends, but especially by the creation and expansion of a relatively limited number of large, well financed, fully integrated national and global providers that are well positioned to serve the needs of the largest users of telecommunications services.

85. A key component of the strategy behind the SBC/Ameritech merger, as well as a key component of the approval of this merger by SBC's Board, is the belief that the National-Local Strategy and the global expansion of SBC are critical to SBC's success. Indeed, SBC's senior management advised the SBC Board that, without the growth opportunities enabled by this national and global strategy, the premium paid and risk assumed in connection with the merger would not be justified. In approving this merger, the SBC Board also approved the National-Local and global strategies as a critical component of SBC's future. In the absence of the merger, SBC does not believe these strategies are viable and does not contemplate out-of-region entry into local exchange markets.

The Effects of SBC's Strategy on the Public Interest

86. By implementing the National-Local Strategy, SBC believes that its actions will accelerate the development of competition in all market segments. There should be no

question that the National-Local Strategy will have pro-competitive effects in the 30 new markets that SBC will enter. However, SBC also projects that the National-Local Strategy will stimulate competition in the 13 states that are currently the in-region market for SBC, Ameritech and SNET. At the outset, this will occur largely because other carriers will be motivated to take measures to compete for the lucrative business of major national accounts by offering a comprehensive package of services, including the all-important advanced data services, and including services within the SBC/Ameritech home region. In the same way that the consolidation of MCI/WorldCom/MFS/Brooks/UUNet was a "wake-up call" for SBC, we fully expect that our acquisition of Ameritech and the launch of our National-Local Strategy will compel a similarly aggressive response from our rivals.

Enhanced In-Region Competition

87. Absent the SBC/Ameritech merger and the implementation of the National-Local Strategy's significant out-of-region expansion, companies such as AT&T/Teleport/TCI, MCI/WorldCom/MFS/Brooks/UUNet, Sprint/France Telecom/Deutsche Telekom, and other CLECs do not face significant competition for the bundle of local exchange and long distance services. Their existing customer base, while exposed to competition, is not being contested by an ILEC that can package local and long distance services in a single offering. As the new SBC implements its National-Local Strategy these companies' incentives will be changed. Companies such as AT&T/Teleport/TCI will find their existing customer base in all market segments under challenge by SBC and its out-of-region entry. These interexchange carriers must, in our judgment, respond and

begin to compete aggressively in SBC's in-region local exchange markets in order to remain competitive by offering a full range of services.

88. In addition, the other incumbent BOCs must naturally respond to defend their business in their own regions and in ours, and we prepared the National-Local Strategy based on that assumption. The expanded competition in our region may result from those companies attempting to follow select customers, or as a result of their undertaking efforts to achieve similar economies of scale, scope and geographical diversity as the new SBC. As companies such as Bell Atlantic, BellSouth, US West, GTE, and other CLECs enter SBC's in-region markets, which we believe they must and will, their actions will have a corresponding competitive effect not only on SBC but on all of the other competitors in the market.

89. Moreover, the regional and niche providers, who have significant pricing flexibility in the absence of a large embedded customer base and little or no capital requirements due to the provisions of the 1996 Act, can continue to compete in these markets as well. This is particularly true since they can also provide the full bundle of local exchange and long distance services in those markets. These niche competitors, who can focus on high-end, small and medium sized business customers, have very high revenue potential and pose a correspondingly high revenue risk for the incumbents. The regional and niche providers have ample opportunity to survive in this competitive market place.

Enhanced Long-Distance Competition

90. Outside its own region, SBC can, of course, provide long distance service immediately and will be in a position to provide bundles of goods and services including

local and long distance service. As SBC expands its base of large corporate customers around the country and goes deeper into the marketplace for small business and residential customers, the existing long distance providers and CLECs who have an embedded base of long distance and full service customers must compete in order to preserve that base. This added competitive impetus will also generate competitive responses from other BOCs, IXCs and CLECs, who will attempt to follow their customers into SBC's territory.

Local Exchange Entry in Ameritech Region Not Planned or Feasible

91. As described in more detail and reflected in the affidavit of Stan Sigman, the President and CEO of SBC Wireless, SBC had no plans to enter the local exchange market in Ameritech's region on its own. SBC determined that its existing asset base out-of-region was not sufficient to sustain a viable local exchange entry and generate the returns necessary to warrant the commitment of the required assets and resources. SBC's experience also taught it that its best utilization of its existing wireless management is to focus on the highly competitive wireless markets. Furthermore, large corporate customers tend to focus more on the availability of local exchange and long distance service than they do on wireless service. As a result, wireless assets are not as strategically important to efforts to provide local exchange service to this segment of the market. Obviously other providers who might focus on different segments of the market could utilize wireless assets as a base for doing so. These assets simply do not, on their own, form a sufficient base from which SBC would consider entering the local exchange business on a national/global basis. This is particularly true in light of the

relatively limited geographic coverage of our out-of-region wireless properties when compared to the 30 market National-Local Strategy.

A Record of Success: The Effects of SBC's Merger with Pacific Telesis

92. When SBC first announced the SBC-PacTel merger in 1996, a number of fundamental questions were raised about the potential impact of that merger. Will it increase productivity and jobs, or result in less employment and lower wages and benefits? Will service quality be adversely affected? Will it promote or impede competition? The same basic questions are now being raised about the SBC-Ameritech merger: Is the SBC-Ameritech merger about growth, improving service, increasing investment in the network and expanding competition, or will it lead to lost jobs, increased prices, poorer quality service and disinvestment in Ameritech's network?

93. Fortunately, we have a track record and real-life case study which helps answer these questions. We can look at the facts rather than the rhetoric when assessing the actual impact of the SBC-PacTel merger. When SBC proposed the PacTel merger, some critics claimed that it would result in higher prices, lower quality service, a decrease in investment in California, a loss of jobs and a setback for competition. More than a year has passed since the SBC-PacTel merger closed, and none of these negative predictions have come true. In fact, since the merger closed in April of 1997, jobs have increased, overall service quality has improved, prices for local service have remained unchanged, investment has increased and competition in California is flourishing. While these mergers are different in some respects, understanding what has really happened since SBC merged with PacTel helps put in context what is likely to occur when SBC merges with Ameritech.

Increase in Employment

94. Jobs in California have increased and benefits to PacTel employees have improved since the SBC-PacTel merger closed. Pacific Bell and its affiliates have created 2,869 net jobs (as of May 8, 1998) in California since the merger closed, a 5.8% increase in jobs. Most of the new employees hired by Pacific Bell since the merger closed were hired to improve service and met the increased demand for service and new installations. For example, more than 1,100 new service technicians and maintenance splicers and about 500 new service representatives (who are responsible for answering phones and responding to customer issues) were hired. Moreover, SBC did not create jobs in California by exporting those jobs from its out-of-California operations. In fact, SBC's employment outside California and Nevada also increased by an additional 2,900 jobs since the merger closed. Hence, from the closing of the merger in April 1997 until May 8, 1998, SBC's total employment increased from 113,228 to 119,015 (5.1% increase).

95. Existing PacTel employees have also benefited from the merger. Since SBC merged with PacTel, employees in California have received increased pay and benefits. California employees received pay increases in 1998 and more than 15,000 California employees now receive stock options (prior to the merger only a limited number of employees received that benefit). The company match to the employee savings plan in California was also increased from 67% to 80%. Pacific Bell and Southwestern Bell were also the first Bell Operating Companies in the nation in 1998 to reach early contract agreements with the Communications Workers of America.